



# FAIR DEALER NEWSLETTER

Quarterly updates for the dealer and manufacturer industry

[www.dol.wa.gov/business/vehiclevesseldealer/dlrresources.html](http://www.dol.wa.gov/business/vehiclevesseldealer/dlrresources.html)

October 2008

## Greetings from the Administrator



These are very interesting and very challenging times we are living in right now. Every day seems to somehow bring a new level of pain to the vehicle manufacturing and sales industry. There was an article on the internet recently that projected one out of every five current automobile dealers will go out of business this fall. Another article said a customer must have a credit score of at least 700 to qualify for a car loan right now at most lending institutions. That same article stated that only 50% of the population has a credit score of that quality, so in essence one-half of the adult population cannot get a car financed right now. And with the tough economy, only a precious few are able to make cash deals.

The staff members here at Dealer & Manufacturer Services (DMS) have been witnessing many of these issues. A good share of the dealers that have gone out of business have been model citizens and have made good faith efforts to minimize or eliminate any harm to consumers. However, some have simply vanished, some literally in

the middle of the night, leaving a serious wake of unpaid liens, consumers unable to get titles, unsettled flooring accounts, unpaid taxes, etc. These circumstances are truly unfortunate for all parties touched by them. There are clearly no winners in situations like these.

On a positive note, there are signs that the economy has bottomed out and is beginning to recover. Depending on which day one chooses to look at the news, the stock market is on its way back up and the financial institutions are beginning to respond to the federal bail-out. I am an optimist by nature and, for all of us I sincerely hope I am not wrong when I say better times are just around the corner.

On Thursday, October 16, DMS held its annual "Industry Advisory Council" meeting in Olympia. It is always a pleasure for me to see many of you face to face and renew acquaintances. Having the opportunity to discuss industry issues with so many great minds in the room is a really choice experience and one all of us here in DMS look forward to. If you missed it and would like to

consider attending the next one, we will be getting the word out via email and will announce it in the Fair Dealer next spring. The 2009 meeting will be in October at a location to be determined.

Space restrictions will limit me to just hitting the highlights, but I wanted to at least mention some of the discussion points from the meeting. Here are the agenda items as well as some of the topics that came up during the roundtable discussion:

- DOL Director Liz Luce and Assistant Director Myke Gable welcomed the group and had a few thoughts to share about the industry and the current business climate
- DOL Project manager Rachel Nedrow gave attendees a handout on e-permitting and how the new process for issuing dealer temporaries is being set up.
- DMS Research Analyst Kim Zuchlewski talked about the "Fair Dealer" publication and solicited the group for feedback on how we are doing and ideas for future articles, content, etc.
- A discussion was held on the new Washington law regarding contaminated vehicles (RCW 66.44)
- Stu Halson (TRAW) commended DOL for good communications with stakeholders
- Theresa Gamble (WSIADA) suggested DOL may want to consider developing an "Exit Strategy" for dealers who are leaving the business and want to exit gracefully. This could take the form of a checklist of issues to consider as one closes a business.
- Don Phelps (AROW) thanked the WSP and DOL for the emphasis patrols

targeting illegal hulk haulers. He believes this is getting the attention of those operating illegally, and is garnering the respect and appreciation of the legitimate, licensed operators.

- Gary Smith (Independent Business Association) spoke of proposing legislation which would give DOL the same administrative authority over hulk haulers as it currently has over other licensees.

DMS makes every effort to get the word out about the Industry Advisory Council meetings well in advance. If you were not aware this meeting was taking place and you would like to be notified of upcoming meetings, please contact Laura Desmul, my assistant in the DMS administrator's office, at 360-664-6455, or via email at [ldesmul@dol.wa.gov](mailto:ldesmul@dol.wa.gov), and she will add you to the list.

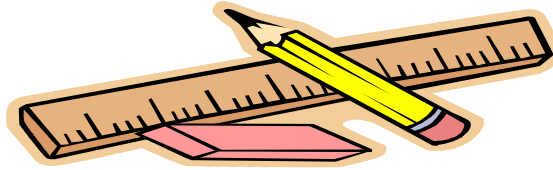
Best wishes to each of you as we enter the Holiday season. Maybe the Mariners, the Seahawks, the Huskies and the Cougs will find some offense under their respective Christmas trees. Summer and fall have definitely been a little rough for sports fans around these parts (and I'm not even going to mention the loss of the Sonics). Well, perhaps the Husky and Cougar basketball teams will find enough success to make us forget about the difficult summer and fall. Hey, it could happen! As I mentioned previously, I am basically an optimist by nature.

Dan Devoe

# Dealership Operational Yardstick

*Continued . . . . Part II*

By Bill Wright



My last article was about Dealer Financial measures. This issue we will look at Dealership Operational measures.

When a business owner is immersed in the day to day operation it is sometimes very difficult to see the forest for the trees. This can hinder your ability to objectively look at the dealership as a whole and as individual departments and issues. Locate trends and adjust your management operations accordingly.

As a business owner you must react to meaningful trends to insure your investment is as safe as possible and your hard work is rewarded. This has become more important than ever over the last year as the automotive marketplace has softened and credit availability has tightened up. I will provide two types of yardsticks. In the last issue we looked at some balance sheet measures. In this article we will look at some operational measures.

Automotive accounting can be very complex. The typical dealership has several departments that may be accounted for individually. Each department (with the exception of the administrative department) is a separate profit center. Not all independent dealerships have all these departments. Please only consider the appropriate measures for your dealership.

If your dealership does not have all the departments referred to in the following guidelines, it does not diminish the value of the other measures. These guidelines are a yardstick that I have used when analyzing the financial strength and viability of dealerships. I was an Executive with a major automotive manufacturer for 24 years prior to coming to work for Dealer Services. My last position prior to retirement was that of Dealer Credit Manager for the Portland Zone of Chrysler Financial.

## Dealership Operational Guidelines

### New Vehicle

- New Vehicle Inventory ageing 45-60 days
- No units over 120 days
- 10-15 new and used retail units per Salesperson

## Dealership Operational Yardstick

*Continued . . . . .*

### New Vehicle (continued)

- Average gross on cars \$1,400 before F&I
- Average gross on trucks \$1600 before F&I

### Used Vehicle

- Used vehicle inventory ageing 30-45 days
- No units over 60 days
- Average gross on used cars and trucks \$1500 before F&I

### Department Net Retention

- New Vehicle Department Net should be 35% of Gross
- Used Vehicle Department Net should be 50% of Gross
- Service Department Net should be 50% of Gross
- Body Shop Department Net should be 40% of Gross
- Parts Department Net should be 50% of Gross

### Fixed Expenses

- Total Fixed Expenses should be 25-35% of Total Gross Profit
- Rent Factor should be 6.0-9.0% of Total Gross
- Office Compensation should be 4.0% of Total Gross
- Payroll Taxes should be 4.5% of Total Gross
- Net Earnings should be 3.5-5.0% of Total Sales
- Net Earnings should be 25%-35% of Total Gross
- Total Expenses should be 75-80% of Total Gross
- Absorption should be 55-85% of Total Expenses
- Office Staff to Total Dealership should be no more the 1 to 14
- Owners Compensation should be 3.7% of Gross Sales
- Personnel Expense should be 30% of Gross Profit
- Total Gross per Dealership Employee should be \$6,500 or greater.

I hope these guidelines used by long term successful dealerships are a benefit to you when reviewing your dealership's results and looking for opportunities to improve.

Newsletter Editor, Kim Zuchlewski			
Questions or comments for the editor? Topics / issues you'd like addressed in the next edition of the Fair Dealer Newsletter? Please email <a href="mailto:kzuchlewsk@dol.wa.gov">kzuchlewsk@dol.wa.gov</a>			
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## **Disciplinary Action Cases**

July 1 thru September 30, 2008

### **Andrews Auto Glass**

*Finding:* Unlicensed dealer activity

*Action / Penalty:* Cease & desist / \$8,000

### **Freedom Lincoln Mercury**

*Finding:* Insolvent

*Action / Penalty:* License terminated / surrendered

### **Montgomery Scrap Processing**

*Finding:* Salvage

*Action / Penalty:* License suspended for 30 days / \$13,000

### **Parr's Cars**

*Finding:* Selling out of class

*Action / Penalty:* \$10,000

### **Legacy Motors**

*Finding:* Late title transfers

*Action / Penalty:* \$3,750

### **R & M Auto Sales**

*Finding:* Other

*Action / Penalty:* \$1,000

### **Williams, Alfred Lee**

*Finding:* Unlicensed dealer activity

*Action / Penalty:* Cease & desist / \$7,000

### **Manyari, Jose L.**

*Finding:* Unlicensed dealer activity

*Action / Penalty:* Cease & desist / \$4,000

### **Fred's Auto Wrecking**

*Finding:* Salvage

*Action / Penalty:* \$3,000

### **Southend Quality Auto Care**

*Finding:* Unlicensed dealer activity

*Action / Penalty:* Cease & Desist / \$1,000

### **V & P Auto Repair**

*Finding:* Unlicensed dealer activity

*Action / Penalty:* Cease & desist / \$5,000

### **Bremerton Auto Sales**

*Finding:* Place of business

*Action / Penalty:* License cancelled

### **Black Diamond Auto Wrecking**

*Finding:* Salvage

*Action / Penalty:* Agreement / \$1,000

### **Car City of Tacoma**

*Finding:* Late title transfer

*Action / Penalty:* Notice of correction

### **Brian R. Green**

*Finding:* Personal history statement

*Action / Penalty:* Denied license

### **Jennings Recycling**

*Finding:* Salvage

*Action / Penalty:* License cancelled for nonrenewal

### **Apex Towing Burlington**

*Finding:* Surplus funds violation

*Action / Penalty:* Notice of correction